

CALIFORNIA BOARD OF ACCOUNTANCY

INITIAL STATEMENT OF REASONS

Hearing Date: January 27, 2012

Subject Matter of Proposed Regulations: Safe Harbor

Sections Affected:

1. Amend Section 4 of Title 16 of the California Code of Regulations

Specific Purpose:

This proposal would amend the safe harbor letters in Section 4 to clarify that the preparer of the attached financial statements is not licensed, nor required to be licensed, by the Board for the preparation of the attached statements. The proposal would add additional language to the letters to further clarify that if compiled, reviewed or audited financial statements are desired, the services of a licensee of the Board would be required.

Factual Basis/Rationale:

With the implementation of the Board's Peer Review program in 2010, a certified public accountant (CPA) who compiles financial statements is subject to a peer review every three years. A non-licensee of the Board, however, may prepare financial statements without undergoing a peer review as long as a Section 4 safe harbor letter accompanies such statements. The Board was concerned that the average consumer may not understand the difference between a financial statement compiled by a CPA, and a financial statement prepared by a non-licensee. The Board determined that modifying the Section 4 safe harbor letters to establish the differences would better protect consumers of these services.

Underlying Data

Technical, theoretical or empirical studies or reports relied upon (if any):
None

Business Impact

This regulation will not have a significant adverse economic impact on businesses. This initial determination is based on the following facts or evidence/documents/testimony:

The Board does not believe that this regulatory proposal will have a significant adverse economic impact on businesses as it simply adds two sentences to an already

prescribed safe harbor letter.

Specific Technologies or Equipment

This regulation does not mandate the use of specific technologies or equipment.

Consideration of Alternatives

No reasonable alternative to the regulation would be either more effective in carrying out the purpose for which the action is proposed or would be as effective and less burdensome to affected private persons than the proposed regulation.

Set forth below are the alternatives which were considered and the reasons each alternative was rejected:

The Board considered not modifying the safe harbor letters. This was deemed to be insufficient in fulfilling the Board's highest priority of protecting the public.